

The Grand Union Company

Report to Stockholders

Sixty-one Weeks Ended
March 2, 1940

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OFFICERS

J. SPENCER WEED	-	-	-	-	-	-	-	President
LANSING P. SHIELD	-	-	-	-	-	-	-	Vice-President
LOUIS C. WADMOND	-	-	-	-	-	-	-	Vice-President
SAMUEL WINOKUR	-	-	-	-	-	-	-	Secretary
THOMAS C. BUTLER	-	-	-	-	-	-	-	Treasurer

DIRECTORS

PEMBERTON BERMAN
CAXTON BROWN
JOHN FOSTER DULLES
ARCHIBALD MACFARLANE
RAY MORRIS
LANSING P. SHIELD
J. SPENCER WEED

April 20, 1940

TO THE STOCKHOLDERS:

The consolidated balance sheet of the Company at March 2, 1940 together with the statements of income and surplus for the 61 weeks then ended, and the report of the independent public accountants, Messrs. Lybrand, Ross Brothers & Montgomery, are submitted herewith. This report covers a 61 week period because the Company has changed its fiscal year to end the Saturday nearest to the last day of February.

Net income for the 61 week period ended March 2, 1940 amounted to \$551,173. Net income for the year 1939 was \$478,259., as compared with \$252,416. for the preceding year. Retail sales for the year 1939 were \$31,599,633. as compared with \$30,397,392. for the year 1938.

Earnings for the first 9 weeks of 1940 amounted to \$72,914. as compared with \$63,353. for the first quarter of 1939. Since the Company did not close its books for the first 9 weeks of 1939, earnings figures for that period are not available. Retail sales for the first 9 weeks of 1940 amounted to \$5,279,522. as compared with \$4,968,814. for the same period of 1939.

Since the approval of the Plan of Recapitalization by the stockholders on December 8, 1939, the first steps in connection with the Plan have been completed. In addition to the \$2. per share made available to the Preference Stockholders upon surrender of their certificates, \$1 on each \$5.45 face amount of Dividend Arrearage Certificates was declared payable on March 8th, 1940. Up to April 18, 1940 Dividend Arrearage Certificates in the amount of \$286,330. had been exchanged for the new Capital Stock. There are still outstanding Dividend Arrearage Certificates in the amount of \$471,575.40 which are exchangeable for 47,157 shares of Capital Stock. In addition, Subscription Warrants entitling the holders to purchase 26,197 shares at \$10. a share have not yet been exercised. Up to the present time no underwriting of the Capital Stock reserved for the Dividend Arrearage Certificates or the Subscription Warrants has been considered advisable.

Both the chain store and wagon businesses continue to make progress. Retail sales are currently running in excess of those of a year ago.

The management wishes to express its sincere appreciation for the wholehearted co-operation of the Company's employees, whose loyalty and efforts have contributed so substantially to the improved showing made during the last year.

J. SPENCER WEED,
President.

THE GRAND UN
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AND ITS SU
CONSOLIDATED
At March

A S S E T S

Current assets:

Cash on hand and demand deposits in banks - - - - - \$1,065,499.83

Accounts receivable:

Trade - - - - - \$ 570,203.19

Miscellaneous - - - - - 72,951.85

643,155.04

Less, Allowance for losses - - - - - 112,438.50 530,716.54

Operating advances to and receivables from agents and employees - - - - - 12,569.50

Inventories at the lower of cost or market:

Merchandise - - - - - 2,844,782.27

Premiums - - - - - 268,485.87

Supplies - - - - - 148,075.49 3,261,343.63

Total current assets - - - - - 4,870,129.50

Investments (market quotations not available):

Mortgages, at costs, less \$8,201.50 allowance for losses - - - - - 84,131.86

Miscellaneous, at costs, less \$12,113.63 allowance for losses - - - - - 1,551.17 85,683.03

Real estate at market values as at various dates in 1933, per appraisals of Scott Realty Appraisal Co., plus addition of \$7,868.14 representing the net amount at which a mortgage foreclosed during 1934 was previously carried and subsequent improvements at costs - - - - -

126,482.17

Less, Allowance for depreciation of improvements - - - - - 12,552.84 113,929.33

Machinery, fixtures and equipment at costs, except as to \$1,114,662.79 at amounts at which revalued as at December 31, 1932 by Board of Directors - - - - -

2,762,818.55

Less, Allowance for depreciation - - - - - 1,583,497.25 1,179,321.30

Premium merchandise advanced to customers, at cost less cost of profit-sharing credits - - - - -

638,915.67

Less, Allowance for losses - - - - - 144,890.23 494,025.44

Prepaid expenses, deferred charges, deposits, etc. - - - - - 138,190.99

Good will - - - - - 1.00

\$6,881,280.59

The Grand Union Company,
New York, N. Y.

We have examined the consolidated balance sheet of THE GRAND UNION COMPANY and its Subsidiaries as of March 2, 1940, the accounting procedures of the companies and, without making detailed audits of the transactions, have examined or tested accounting records.

In our opinion, the above consolidated balance sheet and related consolidated statements of income, surplus appropriated for dividends at March 2, 1940 and the consolidated results of their operations for the sixty-one weeks then ended, in conformity with generally accepted

New York, April 17, 1940.

UNION COMPANY
 CORPORATION
 SUBSIDIARIES

BALANCE SHEET
 2, 1940

LIABILITIES

Current liabilities:

Bankers' acceptances against coffee received under trust receipts	-	-	-	\$ 48,291.00
Accounts payable and accrued liabilities	-	-	-	1,072,513.81
Provisions for federal income tax	-	-	-	129,474.06
Distributions payable under plan of recapitalization:				
\$2 per share on old preference stock payable on surrender thereof			\$ 28,240.00	
Initial distribution on dividend arrearage certificates payable				
March 8, 1940, and applicable up to that date on purchases				
of capital stock (less \$18,978 applied prior to March 2, 1940				
on purchases of capital stock)	-	-	115,022.00	143,262.00
Provision for special repairs to leased buildings	-	-	-	5,000.00
Total current liabilities	-	-	-	1,398,540.87
Employees' fidelity and other deposits	-	-	-	136,269.57
Reserves:				
For unredeemed premium tickets			40,429.85	
For real estate and investments, representing excess of selling prices				
over net book amounts of real estate and investments sold dur-				
ing 1937	-	-	31,740.75	72,170.60
				1,606,981.04

Note: The company is contingently liable for approximately \$20,000 of unused balances of letters of credit.

CAPITAL

Capital stock, no par value, authorized 400,000 shares, issued 205,749-12/15 shares (see Note below)	-	4,305,259.00
<p>Notes: The 205,749-12/15 shares shown above include 14,120 shares of capital stock represented by unexchanged certificates for an equal number of shares of old preference stock and 3,294-14/15 shares of capital stock represented by unexchanged certificates for 49,424 shares of old common stock.</p> <p>At March 2, 1940 subscription warrants for the purchase of 26,299-7/10 shares of capital stock at \$10 per share were unexercised. The subscription rights are terminable by the company upon fifteen days' notice.</p> <p>Dividend arrearage certificates may be exchanged for capital stock at the rate of \$10 principal amount for one share of capital stock. Such exchange privilege is terminable by the company upon fifteen days' notice.</p> <p>No dividends may be paid on capital stock while dividend arrearage certificates are outstanding.</p>		
Surplus appropriated for dividend arrearage certificates, as annexed	\$509,489.40	
Capital surplus, as annexed	344,340.95	
Earned surplus since December 8, 1939, as annexed	115,210.20	
	969,040.55	5,274,299.55
		\$6,881,280.59

and their consolidated statements of income and surplus for the sixty-one weeks then ended, have reviewed the system of internal control and
 of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.
 dividend arrearage certificates, capital surplus and earned surplus, present fairly the consolidated position of The Grand Union Company and its sub-
 jected accounting principles applied on a basis consistent with that of the fifty-two weeks ended December 31, 1938.

CONSOLIDATED STATEMENT OF INCOME
for the sixty-one weeks ended March 2, 1940

Sales		\$37,153,806.78
Cost of sales (including depreciation of \$14,123.82)		27,240,365.08
Gross profit		9,913,441.70
 Selling and general expenses:		
Store expenses, salaries of salesmen, managers and superintendents, delivery, advertising and other expenses		\$6,825,748.84
Rentals of stores		752,054.71
General and administrative expenses		737,526.77
Allowances for doubtful accounts and premium merchandise advanced to customers		134,827.10
Taxes (other than federal income tax)		351,166.25
Depreciation of retail distribution equipment, etc.		411,706.17
Provision for special repairs to leased buildings		5,000.00
		9,218,029.84
		695,411.86
 Other deductions, including losses on retirements of fixed assets, etc., less miscellaneous income, interest, etc. of \$16,412.09		19,238.35
Net income before provision for federal income tax		676,173.51
 Provision for federal income tax		125,000.00
Net income		\$ 551,173.51

CONSOLIDATED STATEMENT OF EARNED SURPLUS
for the sixty-one weeks ended March 2, 1940

Earned surplus, December 31, 1938		\$439,491.95
Portion of net income for the sixty-one weeks ended March 2, 1940 considered as having been earned during the period from De- cember 31, 1938 to December 8, 1939		435,963.31
		<u>875,455.26</u>
Cash dividends on old preference stock paid during 1939 prior to adoption of plan of recapitalization		199,437.50
Earned surplus, December 8, 1939		676,017.76
Earned surplus appropriated as of December 8, 1939 in connection with plan of recapitalization:		
For cash distribution of \$2 per share on old preference stock upon surrender thereof	\$319,100.00	
For dividend arrearage certificates	356,917.76	676,017.76
		—○—
Portion of net income for the sixty-one weeks ended March 2, 1940 considered as having been earned after December 8, 1939		115,210.20
Earned surplus since December 8, 1939		\$115,210.20

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS
for the sixty-one weeks ended March 2, 1940

Capital surplus, December 31, 1938				\$668,242.14
Deduct:				
Capital surplus appropriated as of December 8, 1939 in connection with plan of recapitalization				\$512,629.74
Expenses incurred in connection with plan of recapitalization				<u>53,299.45</u>
				565,929.19
				102,312.95
Add:				
Excess of principal amount of dividend arrearage certificates and coupons representing initial distribution thereon exchanged for capital stock (on bases of \$10 per share of capital stock) over amount credited to capital stock account (\$1 per share)				218,070.00
Excess of selling price of capital stock sold at \$10 per share under subscription warrants issued to holders of old common stock under the plan of recapitalization over amount credited to capital stock account (\$1 per share)				<u>23,958.00</u>
				242,028.00
Capital surplus, March 2, 1940				<u>\$344,340.95</u>

**CONSOLIDATED STATEMENT OF SURPLUS
 APPROPRIATED FOR DIVIDEND ARREARAGE CERTIFICATES
 for the period from December 8, 1939 to March 2, 1940**

Appropriations approved by Board of Directors as of December 8, 1939 for dividend arrearage certificates:

From earned surplus				\$356,917.76
From capital surplus				512,629.74
				869,547.50
Deduct:				
Dividend arrearage certificates exchanged for new capital stock, plus \$2,736.10 cash payments in lieu of issuance of fractional shares				\$226,058.10
Initial distribution of \$1 on each \$5.45 principal amount of dividend arrearage certificates (declared February 13, 1940, payable March 8, 1940)				<u>134,000.00</u>
				360,058.10
Balance, March 2, 1940 representing dividend arrearage certificates issued or issuable (114,492 units at \$4.45)				<u>\$509,489.40</u>

